Mary L. Henze
Asst. Vice President
Federal Regulatory

AT&T Services, Inc.
1120 20th Street, Suite 1000
Washington, D.C. 20036
Phone 202 457-2041
Fax 202 457-2062
E-Mail: mary.henze@att.com

November 9, 2007

Ms. Marlene Dortch
Secretary
Federal Communications Commission
The Portals
445 12th Street SW
Washington DC 20554

Re: WC Docket 05-337, High Cost Universal Service Support

Dear Ms. Dortch:

This is to inform you that on November 8, 2007 the undersigned, Hank Hultquist, and Cathy Carpino of AT&T met with John Hunter of Commissioner McDowell's office. The purpose of the meeting was to discuss the Joint Board's recommendation to cap CETC support and other proposals to reform Universal Service. Our comments were consistent with positions contained in previous filings in the listed docket. The attached, previously filed material, was provided to Mr. Hunter following the meeting.

In accordance with Section 1.1206, I am filing this notice electronically and request that you please place it in the record of the noted proceeding. If you have any questions please do not hesitate to contact me at 202-457-2041.

Sincerely,

Mary L. Henze

cc: J. Hunter

at&t

Robert W. Quinn, Jr.
Senior Vice President
Federal Regulatory

AT&T Services, Inc.
1120 20th Street, NW
Suite 1000
Washington, DC 20036

T: 202.457.3851
F: 832.213.0243

July 16, 2007

Chairman Kevin J. Martin
Commissioner Michael J. Copps
Commissioner Jonathan S. Adelstein
Commissioner Deborah Taylor Tate
Commissioner Robert M. McDowell

Re: ***In the Matter of Federal-State Joint Board on Universal Service, High Cost Universal Service Support*, WC Docket No. 05-337; *In the Matter of Federal-State Joint Board on Universal Service*, CC Docket No. 96-45**

Dear Chairman & Commissioners,

The Commission has before it an opportunity to bring one of the 20th century's most important telecom policy initiatives -- universal service -- into the 21st century. During the last century, federal and state universal service programs and policies largely succeeded in making narrowband voice telecommunication services available in rural areas across the country. Policy makers now face a new challenge: to maintain the commitment to affordable basic service in an increasingly competitive and technologically sophisticated marketplace while also encouraging investment to deploy of the broadband and wireless networks necessary to provide the services that consumers and businesses require today.

As recent Congressional hearings made clear, there is growing consensus that the existing federal universal service fund (USF) high-cost support mechanisms are deeply flawed. There is almost an equally strong consensus that further extending broadband and wireless deployment into rural areas is a critical national policy goal. However, simply adding broadband and wireless to the USF mix without fundamental reform of the high-cost support regime will only increase the strain on this already broken system and doom to failure efforts to promote additional broadband and wireless infrastructure investment in rural areas

Rather than adapting the current high cost mechanisms to achieve its broadband and wireless deployment objectives, AT&T urges the Commission to address broadband and wireless deployment needs directly and outside of the current mechanisms. In response to the Joint Board's request for input on Long Term USF reform, AT&T has proposed broadband and wireless pilot programs designed specifically to promote network investment in rural areas quickly while also, and critically, enhancing our understanding of whether and/or how best to use USF to support this objective over the longer term.[1] The proposed broadband pilot is modeled after the Commission's own

[1] This exparte focuses on the proposed Broadband Pilot, however, AT&T believes that adopting its proposed Mobile Wireless Pilot is equally critical to furthering national policy goals. Similar to the

Rural Healthcare pilot program and would utilize the expertise of both Federal and State regulators to create a streamlined and focused initiative that could be operational within six to eight months.

The AT&T Rural Broadband Pilot

AT&T proposes that the Commission establish a two-year Rural Broadband Pilot Program to support deployment of broadband infrastructure in underserved rural areas. Under the Pilot, applications would be submitted to the FCC and the State Commissions and funding would be distributed to approved applicants to support new capital investment in infrastructure necessary to provide consumers in such areas access to advanced telecommunications and information services. Participation in the Pilot Program by providers would be purely voluntary, with providers free to choose whether to apply for funding based on their own evaluations of the final program requirements. The key features of the AT&T Broadband Pilot fall into the three steps outlined below.

Step 1

The Commission would determine in advance the fundamental parameters of the Pilot such as the available funding, geographic scope, supported service, definition of underserved, and other eligibility criteria.

a. Funding: The Commission would specify the Pilot funding level, such as $1 billion per year for two years) and the source of funding.[2] Providers whose applications are chosen for support will receive a one-time grant of funds to cover their proposed project.

b. Providers: The Pilot would be open to all service providers that are capable of providing the supported service. Providers would not be required to be ETCs to apply for Pilot funding but would be required to meet certain Pilot requirements and thus to become a Broadband Eligible Provider or BEP.

c. Geographic Area: The areas eligible for Pilot funding should be identified by the Commission and should be the nexus between rural Census Block Groups and price cap ILEC serving territory. The Commission should define "rural" as that term is used in the 2000 Census.

Broadband Pilot, the AT&T Mobile Wireless Pilot Program would be used to distribute a specified amount of funding to support new capital investment in the infrastructure necessary to provide mobile wireless services in rural areas in which such services currently are unavailable or inadequate. The USF support provided to wireless CETCs today is not explicitly designed to promote deployment in rural areas and thus while fund size has escalated some rural areas remain underserved. The AT&T Mobile Wireless Pilot is designed to address rural deployment head-on by targeting support directly to providers seeking to deploy new facilities and services in underserved areas.

[2] AT&T recognizes that the size of the Universal Service Fund may need to increase to meet all of the Commission's objectives.

d. Underserved: The Commission should issue a standard definition of "underserved" for use by States in evaluating applications. Underserved should be defined as areas where the supported service is not *substantially available* to households within the rural service area for which the applicant seeks funding.[3]

e. Supported Service: The Commission should define in advance that the supported service is broadband Internet access service that meets the definition of "Advanced Telecommunications Capability" as set forth in Section 706 of the Act. The Commission should also define other parameters such as minimum downstream and upstream transmission capability, as well as any other applicable service parameters.

f. Eligibility Requirements: The Commission should identify basic eligibility requirements that all applications for funding must meet, such as: financial qualification criteria; deployment schedule that does not exceed two years; commitment to provide service at an affordable rate; commitment to provide supported service throughout the application area for a minimum of five years following completion of project; information that indicates the project area is "underserved;" and, type of facilities and equipment, and resulting coverage, that will be deployed.

Step 2

Interested providers would submit applications to the relevant State Public Service Commissions who would determine eligibility based on FCC-defined parameters.

a. Application Frequency: To minimize administrative and transaction costs, applications for the Pilot should be accepted and processed in one round prior to the start of the first program year. (That is, the FCC would identify winning applicants for both funding years prior to the first year, but disburse no more than $1 billion in each program year.)

b. Application Process: An interested service provider submits an application to the relevant State Public Service Commission (with a copy to the FCC) in which it identifies a specific rural area that is "underserved" by broadband and for which the service provider seeks funding to deploy facilities to provide the supported services. The provider presents a project proposal, amount of new capital investment for which funding is requested, and supporting documentation.

c. State Review: States are responsible for 1) verifying that the area covered by the application meets the FCC's definition of "underserved," and 2) determining that the application meets all other FCC-defined eligibility requirements. States have the local knowledge to verify whether the applicant-identified service area is underserved and this simple process is a time and resource efficient method of

[3] The Commission would also establish specific criterion or other measures for determining "substantially available," such as, for example, that 85% of the households in the service area do not have access to the supported service.

targeting funding to rural areas that are in most need of support. States could use various methods for such verification including putting applications out for public comment.

Step 3
States would submit all qualified applications to the FCC which conducts the final review and selects a single provider in each geographic area in which applications were submitted.

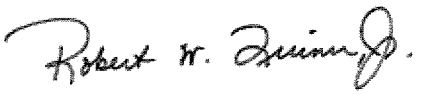
a. Application Ranking: If the Pilot is oversubscribed, the Commission should rank applications by number of households to be served and give highest ranking and higher priority to projects that result in the greatest number of households receiving the supported service. Deployment timelines may also help guide the ranking process with preference given to shorter time to market.

b. FCC Review Criteria: The Commission should establish general selection criteria in advance of the Pilot launch. These criteria will be used by the FCC to guide its selection of applications that will receive funding, especially in the event a service area has multiple applications or the Pilot is oversubscribed. To enhance the learning from the Pilot, the Commission should fund a variety of projects (large and small) and in different regions to achieve some geographic balance and maximize experience with broadband deployment in disparate topographies.

c. Number of Grants: The Commission should limit funding to only one provider in any particular area even if more than one provider applies for funding. If only a single application is submitted for an area the Commission should not be compelled to grant funding if the application does not meet the selection criteria.

In a final step, the Commission should report on the results of the Pilot and launch a proceeding to consider whether the program or some modified version should be continued. AT&T believes that the Rural Broadband Pilot Program can have a measurable impact on broadband deployment in underserved rural areas while at the same time clearing the way for more significant reform of high-cost mechanisms. We would welcome the opportunity to discuss our proposal with you in more detail.

Sincerely,



cc: Hon. Ray Baum
Hon. Lisa Polak Edgar
Hon. Larry S. Landis
Hon. John D. Burke
Hon. Billy Jack Gregg
Daniel Gonzalez
Ian Dillner
Scott Bergmann
Scott Deutchman
Nick Alexander
John Hunter
Thomas Navin
Randy Clarke
Jeremy Marcus

1. Modification to Joint Board-Proposed Cap

With a few modifications, the Joint Board's proposed interim cap is reasonable method to control fund growth while undertaking long term reform.

- However, as proposed, cap mechanism could result in unpredictable mid-year reductions in funding when new ETCs are approved in a state.
- Inclusion of new lines would require mid-year adjustment in "reduction factor" and reduce per-line support for all existing CETCs in the state.
- Significant unplanned reductions would put CETCs' infrastructure deployment commitments at risk.

AT&T proposed "predictability" modification: Limit CETCs eligible to receive capped funding in each state in any given year to those designated as CETCs as of a particular date (i.e., carriers designated on/or before October 1).

Modification would enable existing CETCs to complete build out plans and meet state infrastructure commitments.

Base year should reflect 2007 funding levels to recognize most current levels of infrastructure deployment rather than retroactively capping.

2. Identical Support Rule and Actual Costs

Implementing Joint Board cap has the effect of eliminating the identical support rule.

- Regardless of actual reduction, CETCs would no longer be guaranteed to receive the same per-line support as wireline carriers.
- No other action to eliminate identical support rule is necessary at this time.

Proposals to replace identical support rule with actual cost methodologies are both highly regulatory and ill-conceived.

Simply inputting wireless costs into wireline mechanism generates anomalous results that do not meet policy goals.

3. THE GVNW WICAC PROPOSAL

A. Fundamental Concerns

GVNW's proposal, which would continue to provide high cost support to wireless carriers using a variation of the existing flawed per-line support mechanisms, does not

- reflect cost dynamics of wireless service, and
- improve the incentives for wireless carriers to deploy service in unserved areas.

Costs associated with providing wireless service are not per-line or per customer sensitive like wireline service; wireless costs are generated more by demand for minutes which can come in areas where no customers reside (i.e., along highways)

Imposing an actual cost methodology to allocate wireless support as an *interim* measure is an extreme step that requires serious debate to avoid unintended consequences that inconsistent with desired public policy objectives.

GVNW, a consultant for the rural ILEC community, has designed a mechanism that biases the support calculation to decrease wireless support levels.

B. GVNW's Wireless Part 32 Proposal is Seriously Flawed

GVNW's suggestion that implementing a Wireless Part 32 process would be quick and simple reflects a serious misunderstanding of basic financial accounting realities.

Different Accounting "Geography"
Use of study-area-specific cost data in existing support mechanisms was developed in a wireline-centric regulatory environment. The rural ILECs are required to maintain Part 32 data by study area for separations and rate-making purposes.

- Many, if not most wireless carriers do not maintain their financial records on a state-by-state basis much less by study area. Financial accounting is based on business needs and development of their networks. For example, AT&T Mobility books costs based

on "market clusters" which can encompass multiple and/or partial states.

- GVNW suggests that a new wireless Part 32 system of accounts would be easy to implement because it would just involve "mapping" to 23 accounts. However, GVNW presumes the use of state-by-state and study area by study area wireless cost data which does not currently exist and would require extensive changes for this limited purpose.

Different Accounting Methodology

The primary bases of the Part 32 chart of accounts are the functions performed by the assets or by individuals as opposed to expenditure type or organizations where the functions are performed (Part 32.2(b) and Part 32.5999(a)(2)).

- Wireless carriers do not maintain their books on the functional basis used in Part 32. Thus, for example, instead of recording wages and salaries in the wages and salaries expense account used by AT&T Mobility, wages and salaries would have to be assigned or allocated among the different functional accounts used in Part 32 (i.e., Land and Building expense, CO switching expense, Cable and Wire Facilities expense, etc.).

- Such assignments/allocations requires various forms of time reporting and downstream allocation processes, including the assignment of locations codes. These changes would not only apply to wages but to all expenditure types such as assets, benefits, rents, and others.

Lengthy and Expensive to Implement

GVNW's suggested 9-month timeline for Wireless Part 32 adoption is ludicrously optimistic. The Commission's transition from Part 31 to Part 32 provides useful historical perspective:

- In May 1986, the Commission required the transition from a former Uniform System of Accounts (Parts 31 and 33) to the current Part 32 USOA. The Commission initiated the proceeding nearly eight years before the rules were ultimately adopted. The final FNPRM alone took 15 months to complete.

- The Commission granted carriers more than 18 months to implement the new Part 32, recognizing they would need that much time even though they were transitioning from one uniform

system to another. The estimated cost to implement the proposed system was between $600M - $1.1B in 1986 dollars.

The time and expense of imposing a uniform accounting system on the wireless industry that has no history of regulatory accounting uniformity would be exponential.

C. GVNW's Wireless ETC Algorithm is Seriously Flawed

Under the existing HCL algorithm (the NECA Loop Cost Allocator) rural LECs receive support for their unseparated loop costs. In other words, both the interstate and intrastate loop costs are used to determine rural LECs' eligibility for HCL support.

GVNW's algorithm would require the application of an "intraMSA ratio", i.e., the ratio of minutes of use (MOUs) both originating and terminating within an MSA to total MOUs within the study area. For study areas outside an MSA, the ratio used would be that of the intra-study area traffic compared to total traffic (apparently within the study area). If the company cannot or does not measure its traffic in this manner, GVNW proposes to apply a default ratio of 0.5.

As used in the algorithm, the effect of the intraMSA ratio would be to apply a reduction factor to a wireless ETC's loop costs before they are compared to the National Average Cost per Loop. The cost reduction factor would be 50% if the wireless carrier does not measure its intraMSA or intra-study area traffic. The existing HCL algorithm does not apply any similar reduction factor to rural LECs' costs before the NACPL benchmarks are applied.

The effect is thus to artificially reduce wireless carriers' costs, but not rural LECs' costs, in a manner more likely to exclude wireless ETCs from receiving support. This can hardly be called an "identical basis of support", despite GVNW's assertions

In addition, it is not at all clear how or why the GVNW mechanism would be used as an alternative to HCM support calculations.